



Royal College of Art

Postgraduate Art and Design

Financial Statements

Royal College of Art

Financial Statements 2012–13
For the Year Ended 31 July 13

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Treasurer's Report for the year ended 31 July 2013

The Royal College of Art is the world's most influential wholly postgraduate university for the study of art and design. The RCA has a distinctive role in preparing its postgraduate students for careers in art, design and the creative sector – indeed the College is widely viewed as a crucible of the creative industries. In 2012/13 it had almost 1,200 students enrolled, approximately 30 per cent of whom came from countries outside the EU.

The College is an exempt charity which operates under the terms of a Royal Charter. The trustees of the charity are the current Council members. The current Charter was granted in 1967, although the College was originally founded in 1837 – at that time it was known as the Government School of Design. 2012 was the 175th anniversary of the College's foundation and an exhibition and other events to mark the occasion took place in November and December.

The College has governance arrangements which are similar to those of pre-1992 English universities. It is funded by the Higher Education Funding Council for England (HEFCE), which also acts as the College's regulator under the terms of the Charities Act 2011. The College's accounts are required to follow the format laid down in the Statement of Recommended Practice: Accounting for Further and Higher Education (SORP).

Estates development

The College's current strategic plan was agreed in 2010. It covers the period 2011-16. The strategy was complemented with an estates Masterplan, drawn up in conjunction with Haworth Tompkins, the architects who designed the College's Battersea North Site development. The Dyson Building, which forms the largest element of this development, was completed in the Spring of 2012 and formally opened by Sir James Dyson on 24 September 2012.

Council agreed in principle in 2011 to go ahead with the construction of the Woo Building, which forms the third and final phase of the Battersea North development. The main contract for the work was awarded to Vinci Construction (UK) Ltd in January 2013 and work began in April 2013. The contract is in the sum of some £8.3m plus VAT. Practical completion is expected in the Autumn of 2014 and the total cost of the project, including the construction contract, fees and VAT, is expected to be some £13.3m. The project is being financed through a donation of £1.5m from Sir Po Shing and Lady Helen Woo and additional borrowing of £4m, with the balance coming from a series of smaller donations and the College's reserves. The building will provide accommodation for the Ceramics & Glass and Goldsmithing, Silversmithing, Metalwork & Jewellery programmes, along with additional studio and seminar space.

Results for the year

The consolidated income and expenditure results for the year to 31 July 2013 (pp. 11–12) show a surplus of just over £200,000. This is considerably lower than the previous year's figure.

The main reasons for the fall in the surplus are the costs of the 175 exhibition and associated events (£546,000), increased expenditure on research activity in the run-up to the Research Excellence Framework (£462,000) and an increase in expenditure

on building management and maintenance as the College tackles a backlog of investment in its estate (£894,000). Payroll costs also rose – this reflects increased staffing levels required to teach the increased number of students enrolled at the College.

The College's balance sheet remains strong – general reserves have increased to £11.4m and cash reserves remain above £9m, despite capital expenditure of £3.8m being incurred during the year. The additional £4m of borrowing for the Woo Building was not drawn until 1 August 2013 and so does not appear on the Balance Sheet for 2012/13.

Income and expenditure account

During the year HEFCE made a series of announcements about future funding following the increase in undergraduate fees which came into effect for new students in the autumn of 2012. Funding for postgraduate taught courses has continued on an interim basis (it had originally been expected that this funding would cease) and HEFCE has also continued to fund 'high cost courses' albeit at a lower level than previously. During the year HEFCE reviewed the College's targeted allocation (institutional premium) funding and decided to continue it until at least 2015/16 at approximately its current level. The net effect of all this is that the College's grant income from HEFCE fell by only a very modest £304,000 in 2012/13 – a drop of about 2.2 per cent.

Applications for places at the College remain strong, particularly from overseas students. The number of students enrolled increased last year to 1,174 (full time equivalent) and a further increase to about 1,380 is expected in 2013. The completion of the Dyson Building and the acquisition of short-term space in the Dana Centre in Kensington and Elcho Street (Testbed) in Battersea means

that the College has additional space to accommodate the extra numbers.

The College increased its home/EU fees to £9,000 in 2012. This figure was chosen as it is the maximum fee allowed at undergraduate level (although as a postgraduate institution the College is not bound to set fees below this level). However, the effect of increased tuition fees at undergraduate level on the ability of students to finance postgraduate study is not yet known and the College does not intend to increase home fees again until at least 2015, by which time the higher undergraduate costs will have worked their way through to all home/EU students. The rise in both fees and student numbers led to a substantial rise in fee income during the year. Income rose by 37 per cent from £11.7m to £16.1m, and for the first time the College's income from fees exceeded its income from HEFCE grants.

Income from research also rose, but income from other sources was disappointing, falling by some £650,000 during the year. This is due partly to the increase in student numbers diverting effort into teaching activity.

Staff costs rose by some 11 per cent, almost all of which arose through the creation of new posts in both academic and administrative areas of the College. These posts are required in order to cope with the expansion of student numbers studying at the College and to improve administrative and other College services.

Investments

The College's investments are overseen by an Investment Sub Committee chaired by John Studzinski and charged with setting investment policies for the College's endowments and cash reserves and monitoring their implementation. In 2012 the Committee reviewed the College's investment management arrangements and decided that the funds previously invested in iShares, amounting to just under £5m, should be transferred to an active manager. A competitive process

was undertaken and it was decided that the funds should be invested in the Baring Dynamic Asset Allocation fund. The rest of the College's portfolio remains under the management of Ruffer Investment Management LLP. During the year the funds under management rose from £14.1m to £15.6m, an increase of some 11 per cent.

Risks

The College has a well-developed risk register which is reviewed by the Audit Committee at each meeting. The most significant risk on the register at the end of the 2012/13 financial year is the possible effect of increased costs at undergraduate level impacting on the willingness of students to apply for postgraduate study. Other important risks are the threat to student recruitment represented by the economic difficulties in Europe, the difficulty of obtaining visas for non-EU students and potential threats to the student experience arising out of the rapid expansion of the College in recent years. Increasing costs and continued uncertainty about the size and timing of reductions in public funding for the College are also major risks. Action is being taken to mitigate these risks inasmuch as it is in the College's power to do so.

Subsidiaries

During the year the College continued to use a subsidiary – RCA Design Group Ltd – to act as the developer of the Dyson and Woo Buildings on the Howie Street North site. This arrangement has been made necessary in order to safeguard the College's position in respect of the recovery of input VAT on the project. RCA Design Group is incorporated in Great Britain and registered in England and Wales. The subsidiary is included in the consolidated accounts. The College also has a dormant subsidiary company – Lion & Unicorn Press Ltd.

Conclusion

The HE sector in the UK is undergoing unprecedented change and financial pressure. However the College remains in a strong market position and has an agreed strategy to take it forward over the next few years.

–
Eric Hagman CBE
Treasurer

Public Benefit Statement

The Royal College of Art is an exempt charity under the terms of the Charities Act 2011. As such the College has charitable status for taxation purposes but it is regulated by the Higher Education Funding Council for England (HEFCE). HEFCE requires exempt charities which it regulates to publish an annual public benefit statement having regard to the Charity Commission guidance on public benefit.

The College is incorporated by Royal Charter – it has no shareholders and it does not distribute profits. Any surpluses which arise on its income and expenditure are reinvested in the College's teaching and research activities.

Education

The College provides postgraduate courses in art and design on a non profit-making basis. Fees charged to EU-domiciled students are well below the cost of teaching those students as their costs are subsidised by HEFCE grants. Fees charged to non-EU domiciled students are set at a full cost level. The College provides bursaries and hardship grants to some of its students, partly from HEFCE resources and partly from other resources. These bursaries and hardship payments help students of limited means to study at the College. Many College graduates hold prominent positions in the arts and creative industries.

Research

The College undertakes research in art and design. A particular emphasis is placed on design for an ageing population – the Helen Hamlyn Research Centre is strong in this area. Much of the research carried out at the College is funded by charities and UK research councils and is undertaken in order to advance knowledge and understanding. This research activity is not carried on a profit-making basis. In some cases research is carried out on behalf of commercial sponsors – any profits arising on such research are reinvested in the College's teaching and research activities, where permissible.

Other activities

The College organises public exhibitions, seminars, lectures and conferences which enable students to show their work and also enable the public to engage with the work of the College. The College also operates a schools liaison programme, known as ReachoutRCA. All College exhibitions and lectures are free of charge to members of the public and any charge which might be made for conferences or seminars is designed to cover costs only.

Policies and Operations

The College has adopted policies on environmental and ethical issues and makes every effort to operate in a sustainable and responsible way. These policies are available on the College's website.

Corporate Governance Statement

The College is a corporation formed by Royal Charter with charitable status. It does not fall within the regulation of the London Stock Exchange, but nevertheless the Council is satisfied that the College has, throughout the year ended 31 July 2013 been in compliance with all the Code provisions set out in Section 1 of the UK Corporate Governance Code on insofar as they relate to Colleges.

The College also complies with the Guide for Members of Governing Bodies of Universities and Colleges in the UK that was issued by the Committee of University Chairs in November 2009.

Summary of the Structure of Corporate Governance

The Council comprises lay and academic persons appointed under the College's Statutes, the majority of whom are non-executive. The roles of Chairman and Vice-Chairman of Council are separated from the role of the College's Chief Executive, the Rector. The matters specifically reserved to the Council for decision are set out in the College's Statutes. By custom and under the HEFCE Financial Memorandum, the Council is responsible for the College's ongoing strategic direction, approval of major developments and receiving regular reports from Executive Officers on day-to-day operations. The Council meets four times a year and has several Committees, including a Finance Committee, a Buildings and Estates Committee, an Audit Committee and a Remuneration Committee. All these Committees are formally constituted with terms of reference and comprise mainly lay members of Council.

The Senior Management Team recommends to the Finance Committee the College's annual revenue and capital budgets and monitors performance in relation to the approved budgets. The Senior Management Team advises Council on the College's overall objectives and priorities and the strategies and policies to achieve them. The Nominations Committee considers nominations for vacancies on Council and Committee membership under the relevant Statute. The Remuneration Committee determines the remuneration of the most senior staff. The Buildings and Estates Committee is responsible for estates planning and maintenance issues.

The Audit Committee meets three times annually, with the Internal and External Auditors to discuss audit findings and to consider detailed internal audit reports and recommendations for the improvement of the College's systems of internal control, together with management's response and implementation plans. The Audit Committee also receives and considers

assurance and internal control reports from HEFCE and monitors adherence to the regulatory requirements. The Audit Committee reports annually to Council and to HEFCE on the operation of the College's internal control procedures, risk management, value for money and other relevant matters. Whilst senior management team members attend meetings of the Audit Committee as necessary, they are not members of the Committee, and at each meeting the Committee offers the Internal and External Auditors the opportunity of private meetings with the Committee members without officers present.

Risk Management

On behalf of Council, the Audit Committee has appointed Deloitte and Touche Public Sector Internal Audit Ltd as the College's internal auditors. The internal auditors review the effectiveness of the College's systems of internal control. The results were considered by management and reviewed by the Audit Committee. The Audit Committee is also responsible for the oversight of the College's policies and procedures for Risk Management, in accordance with guidelines issued by HEFCE. A risk management policy for the College has been approved by Council, and a Risk Framework has been presented to the Council by the Audit Committee. The risk management policy sets out the College's underlying approach to risk management and documents the roles and responsibilities of senior managers, Council and other key parties. During the year the Pro Rector (Academic) and other senior officers attended the Committee to discuss their perceptions of the key risks facing the College and the Audit Committee has updated the risk register accordingly.

A number of other key plans and strategies have been drawn up, including an emergency plan and an IT security policy. These address areas of risk

identified by the risk framework. The disaster recovery plan includes a telephone cascade system under which all College staff could be contacted in an emergency. Records of the cascade system, and duplicate copies of all systems and data on the College network, are kept off-site.

Register of Interests

The College maintains a Register of Interests completed by Council members and senior managers and these declared interests are updated annually. Additionally agendas at all meetings of Council and its Committees have “declaration of interests” as the first substantive item. Members and officers are invited to declare any interest in business to be considered by the meeting at that time.

Responsibilities of the Council

The Council is responsible for the administration and management of the affairs of the College and is required to present audited financial statements for each financial year.

The Council is responsible for keeping proper records which disclose with reasonable accuracy at any time the financial position of the College and enable it to ensure that the accounts are prepared in accordance with the Royal Charter and the 2007 Statement of Recommended Practice: Accounting for Further and Higher Education (SORP) and other relevant accounting standards. In addition, within the terms and conditions of the Financial Memorandum agreed between HEFCE and the Council of the College, the Council, through its designated office holder, is required to prepare accounts for each financial year which give a true and fair view of the state of affairs of the College and of the surplus or deficit for that year.

In causing the accounts to be prepared, the Council has to ensure that:

- suitable accounting policies are selected and applied consistently;

- judgements and estimates are made that are reasonable and prudent;
- applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- the College had adequate resources to continue in operation for the foreseeable future and for this reason the financial statements are prepared on the going concern basis.

The Council has taken reasonable steps to:

- ensure that funds from the HEFCE are used only for the purposes for which they have been given and in accordance with Financial Memorandum with the Funding Council and any other conditions which the Funding Council may from time to time prescribe;
- ensure that there are appropriate financial and management controls in place to safeguard public funds and funds from other sources;
- safeguard the assets of the College and prevent and detect fraud;
- secure the economical, efficient and effective management of the College’s resources and expenditure.

The key elements of the College’s system of internal financial control, which is designed to discharge the responsibilities set out above, include the following:

- clear definitions of the responsibilities of, and the authority delegated to Deans, Heads of Programme and heads of administrative departments;
- a comprehensive medium and short-term planning process, supplemented by detailed variance reporting and updates of forecast outturns;
- clearly defined and formalised requirements for approval and control of expenditure, with investment decisions involving capital or revenue expenditure being subject to formal detailed appraisal and review according to approval levels set by the Council;
- comprehensive Financial Regulations, detailing financial controls

and procedures, approved by the Finance Committee and Council;

- a professional Internal Audit team whose annual programme is approved by the Audit Committee.

The Audit Committee, on behalf of the Council, has reviewed the effectiveness of the College’s system of internal control. Any system of internal financial control can, however, only provide reasonable, but not absolute, assurance against material misstatement or loss.

The maintenance and integrity of the Royal College of Art website is the responsibility of the Council; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

Council and Committee Members

The following served as members of Council during the year:

Ex-officio members

Sir James Dyson–Provost

Sir Neil Cossons–Chairman and Pro-Provost

Dr Paul Thompson–Rector and Vice-Provost

Eric Hagman–Treasurer

Professor Naren Barfield–Pro-Rector
(Academic)

Jane Alexander–Pro-Rector (Operations)

Angela Bracco–President of the
Students' Union

Members appointed by the Court

Charles Allen-Jones (Vice-Chairman)

Professor Richard Burdett

Rupert Hambro

Betty Jackson

Dr Joanna Kennedy

Robin Levien (to 30 November 2012)

Caragh Merrick

Sarah Miller

Dame Marjorie Scardino

(from 1 December 2012)

Cathy Turner

Professor Martin Roth

Lady Ritblat

Yinka Shonibare (from 1 July 2013)

Members appointed by the Senatet

Professor Jeremy Aynsley

Professor Neville Brody

Professor Wendy Dagworthy

Professor Tony Dunne

Professor Jane Pavitt

Professor Martin Smith

Professor Jo Stockham

One Student elected by the Students

Ola Mirecka

Co-opted Members

Tony Brierley

David Good

Sir Mark Jones
Professor Sir Keith O'Nions
Sir Peter Michael (from 1 December 2012)
Paul Priestman
Dame Gail Rebuck
John Studzinski

The following served as members of the other Committees directly concerned with financial matters:

Finance Committee

Eric Hagman, Chairman
Charles Allen-Jones
Paul Priestman
Dr Paul Thompson
Tony Brierley
Hemione Hudson (from 1 October 2012)

Audit Committee

Caragh Merrick, Chairman
Ashley Hall
Roger Miles
Sarah Miller
Tony Brierley
David Thompson
Catherine Brock (from 1 October 2012)

Remuneration Committee

Sir Neil Cossons, Chairman
Charles Allen Jones
Eric Hagman
Cathy Turner
Dr Paul Thompson

Buildings and Estates Committee

Dr Joanna Kennedy (Chairman)
Robert Evans
Dr Paul Thompson
Professor Martin Smith
Garry Philpott
Jane Alexander
Charles Allen Jones
Alan Leibowitz
Professor Derek Walker

Investment Sub Committee

John Studzinski (Chairman)
Eric Hagman
Tony Brierley
Dr Paul Thompson

Institutional Advancement Committee

John Studzinski (Chairman)
Rupert Hambro
Dame Gail Rebuck
Dame Marjorie Scardino
(from 1 December 2012)

Senior Officers and Advisers

Dr Paul Thompson—Rector and Vice-Provost

Professor Naren Barfield—Pro-Rector

(Academic)

Jane Alexander—Pro-Rector (Operations)

Nick Cattermole—Director of Finance

& Estates

Corinne Smith—Academic Registrar

Professor Jeremy Aynsley—Director of

Research

Peter Hassell—Director of Information

& Learning Services (retired 30 June 2013)

Professor Jeremy Myerson—Director of the

Helen Hamlyn Research Centre

Bankers

National Westminster Bank plc,
180 Brompton Square, SW3 1XJ

Solicitors

Stephenson Harwood,
1 Finsbury Circus, EC2M 7SH

Insurers

UM Association Ltd,
Hasilwood House, 60 Bishopsgate,
EC2N 4AW

External Auditors

KPMG LLP,
15 Canada Square, E14 5GL

Internal Auditors

Deloitte & Touche Public Sector Ltd,
3 Victoria Square, St Albans, AL1 3TF

Investment Managers

Ruffer LLP,
80 Victoria Street, SW1E 5JL

Baring Asset Management,
155 Bishopsgate, London, EC2M 3XY

Independent Auditors' Report

We have audited the group and College financial statements (the "financial statements") of the Royal College of Art for the year ended 31 July 2013 which comprise the Consolidated Income and Expenditure Account, the Consolidated and College Balance Sheets, the Consolidated Cash Flow Statement, the Statement of Consolidated Total Recognised Gains and Losses, the Accounting Policies and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Council, in accordance with the Charters and Statutes of the College. Our audit work has been undertaken so that we might state to the Council those matters we are required to state to it in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Council for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Council and auditors

As explained more fully in the Responsibilities of the Council set out on pages 8 and 9 the Council is responsible for the preparation of financial statements which give a true and fair view. Our responsibility is to audit, and express an opinion, on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the

financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and College's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Council; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Review to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the affairs of the Group and College as at 31 July 2013 and of the Group's income and expenditure, recognised gains and losses and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the Statement of Recommended Practice – Accounting for Further and Higher Education.

Opinion on other matters prescribed in the HEFCE Audit Code of Practice issued under the Further and Higher Education Act 1992

In our opinion, in all material respects:

- funds from whatever source administered by the College for specific purposes have been properly applied to those purposes
- funds provided by HEFCE have been applied in accordance with the

Financial Memorandum and any other terms and conditions attached to them.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matter where the HEFCE Audit Code of Practice issued under the Further and Higher Education Act 1992 requires us to report to you if, in our opinion:

- the statement of internal control included as part of the Corporate Governance Statement is inconsistent with our knowledge of the College and group.

–
Neil Thomas
For and on behalf
of KPMG LLP
Statutory Auditor
Chartered Accountants
15 Canada Square
London E14 5GL

14 November 2013

Note: Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Consolidated Income and Expenditure Account for the Year Ended 31 July 2013

Income	Note	2012/13	2011/12
		£'000s	£'000s
Funding Council Grants	1	13,175	13,479
Tuition Fees and Education Contracts	2	16,068	11,695
Research Grants and Contracts	3	1,875	1,547
Other Operating Income	4	3,881	4,537
Endowment and Investment Income	5	356	441
Total Income		35,355	31,699
Expenditure			
Staff Costs	6	15,036	13,581
Other Operating Expenses	7	18,086	15,298
Depreciation and Amortisation	10, 11	2,215	2,069
Interest and Other Finance Costs	8	160	218
Total Expenditure	9	35,497	31,166
Surplus/(deficit) on continuing operations after depreciation of tangible fixed assets at valuation before exceptional items		(142)	533
Surplus/(deficit) on continuing operations after depreciation of assets at valuation and disposal of assets		(142)	533
Surplus transferred to accumulated income in endowment funds	18	359	448
Surplus for the Year Retained Within General Reserves		217	981

The Income and Expenditure account has been prepared in respect of continuing operations.

Statement of Historical Cost Surpluses and Deficits for the year ended 31 July 2013	Note	2012/13	2011/12
		£'000s	£'000s

Surplus/(deficit) after depreciation of assets at valuation		(142)	533
Difference between the historical cost depreciation charge and the actual depreciation charge for the year calculated on the revalued amount	20	1,342	(1,342)
<i>Historical Cost Surplus</i>		1,200	1,875

Statement of Consolidated Total Recognised Gains and Losses for the year ended 31 July 2013	Note	2012/13	2011/12
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Surplus/(deficit) on continuing operations after depreciation of assets at valuation and disposal of assets		(142)	533
Appreciation of endowment asset investments	19	1,354	124
Endowment additions	19	473	487
<i>Total Recognised Gains Relating to the Year</i>		1,685	1,144

Balance Sheets as at 31 July 2013

	Note	Consolidated		College	
		2013	2012	2013	2012
		£'000s	£'000s	£'000s	£'000s
Fixed Assets					
Intangible Assets	10	123	0	123	0
Tangible Assets	11	84,826	83,332	84,826	83,332
Other Fixed Asset Investments	12	571	551	571	551
Endowment Asset Investments	13	15,372	14,140	15,372	14,140
Current Assets					
Stock		52	66	52	66
Debtors	14	1,512	1,571	1,512	1,571
Investments	15	9,324	11,055	9,324	11,055
Cash at Bank and in Hand		46	5	46	5
Total Current Assets		10,934	12,697	10,934	12,697
Creditors: Amounts Falling Due Within One Year	16	6,756	5,937	6,756	5,937
Net Current Assets		4,178	6,760	4,178	6,760
Total assets less current liabilities		105,070	104,783	105,070	104,783
Creditors: Amounts Falling Due After More Than One Year	17	7,719	8,818	7,719	8,818
Net Assets		97,351	95,965	97,351	95,965
Represented by:					
Deferred Capital Grants	18	18,881	18,944	18,881	18,944
Endowments	19				
Expendable		5,023	4,534	5,023	4,534
Permanent		10,349	9,606	10,349	9,606
Total endowments		15,372	14,140	15,372	14,140
Reserves					
Revaluation Reserve	20	51,685	53,027	51,685	53,027
Income and Expenditure Account	21	11,413	9,854	11,413	9,854
Total Reserves		63,098	62,881	63,098	62,881
Total		97,351	95,965	97,351	95,965

The Financial Statements on pages 11 to 35 were approved by the Council signed on its behalf by:



Dr Paul Thompson
Rector



Eric Hagman
Treasurer

Consolidated Cash Flow Statement for the Year Ended 31 July 2013

	Note	2013	2012
		£'000s	£'000s
Net Cash inflow from Operating Activities	25	1,905	2,433
Returns on Investments and Servicing of Finance	26	216	295
Capital expenditure and Financial Investment	27	(3,277)	(5,963)
Cash outflow Before Use of Liquid Resources and Financing		(1,156)	(3,235)
Management of Liquid Resources	28	1,731	4,185
Financing			
New Loans	29		
Loans repaid		(1,033)	(968)
<i>Increase/(Decrease) in Cash</i>		(458)	(18)
Reconciliation of Net Cash Flow to Movement in Net Funds			
Increase/(Decrease) in Cash in the period	28	(458)	(18)
Cash inflow from Liquid Resources	28	(1,731)	(4,185)
Movement in Net Funds in Period		(2,189)	(4,203)
Net funds at 1 August		12,279	16,482
<i>Net funds at 31 July</i>		10,090	12,279

Statement of Principal Accounting Policies

A Accounting Convention

The Accounts have been drawn up in accordance with the 2007 Statement of Recommended Practice: Accounting for Further and Higher Education (SORP) and applicable accounting standards. The financial statements have been prepared under the historical cost convention, as modified by the revaluation of endowment asset investments and of buildings for which a cost is not readily ascertainable. The College considers that it has sufficient financial resources and is confident that its future income streams will maintain these resources. The governors believe that the College is well placed to effectively manage its business risks, despite the current uncertain economic situation. The governors have a reasonable expectation that the College has adequate resources to continue in operational existence for the foreseeable future. Thus, they continue to adopt the going concern basis in preparing the financial statements.

B Basis of Consolidation

The consolidated financial statements consolidate the financial statements of the College and the RCA Design Group Ltd (subsidiary). The RCA Design Group has been dormant for a number of years but during 2009-10 it was revived in order to provide development services for Phase 2 of the College's Battersea North Site development. The accounts of the other subsidiary, Lion & Unicorn Press Ltd, have not been consolidated, as it was dormant during the period. The consolidated financial statements do not include those of the Students' Union because the College does not control those activities.

C Income Recognition

Funding council grants are accounted for in the period to which they relate.

Fee income is stated gross and credited to the income and expenditure

account over the period in which students are studying. Where the amount of the tuition fee is reduced by a discount for prompt payment, income receivable is shown net of the discount. Bursaries and scholarships are accounted for gross as expenditure and not deducted from income.

Recurrent income from grants, contracts and other services rendered are accounted for on an accruals basis and included to the extent of the completion of the contract or service concerned; any payments received in advance of such performance are recognised on the balance sheet as liabilities.

Donations with restrictions are recognised when relevant conditions have been met; in many cases recognition is directly related to expenditure incurred on specific purposes. Donations which are to be retained for the benefit of the institution are recognised in the statement of total recognised gains and losses and in endowments; other donations are recognised by inclusion as other income in the income and expenditure account.

Non-recurrent grants received in respect of the acquisition or construction of fixed assets are treated as deferred capital grants. Such grants are credited to deferred capital grants and an annual transfer made to the income and expenditure account over the useful economic life of the asset, at the same rate as the depreciation charge on the asset for which the grant was awarded.

Income from the sale of goods or services is credited to the income and expenditure account when the goods or services are supplied to the external customers or the terms of the contract have been satisfied.

Endowment and investment income is credited to the income and expenditure account on a receivable basis. Income from restricted endowments not spent during the period in accordance with the restrictions of the endowment, is transferred from the income and expenditure account to restricted endowments. Any realised gains or losses from dealing in the related assets

are retained within the endowment in the balance sheet.

Any increase in value arising on the revaluation of fixed asset investments is carried as a credit to the revaluation reserve, via the statement of total recognised gains and losses; a diminution in value is charged to the income and expenditure account as a debit, to the extent that it is not covered by a previous revaluation surplus.

Increases or decreases in value arising on the revaluation or disposal of endowment assets i.e. the appreciation or depreciation of endowment assets, is added to or subtracted from the funds concerned and accounted for through the balance sheet by debiting or crediting the endowment asset, crediting or debiting the endowment fund, and is reported in the statement of total recognised gains and losses.

D Agency Arrangements

Funds the College receives and disburses as paying agent on behalf of a funding body are excluded from the income and expenditure of the College where the College is exposed to minimal risk or enjoys minimal economic benefit related to the transaction.

E Land and Buildings

Land and buildings are stated at cost or at valuation. Chartered Quantity Surveyors carried out a revaluation in December 1998. Under FRS 15 the College has opted to use the 1998 valuation as the balance sheet value, and not to make regular revaluations.

Freehold land is not depreciated. Freehold buildings are depreciated over their expected useful life of 50 years.

A review for impairment is conducted if events or changes in market conditions indicate that the carrying amount of any fixed asset may not be recoverable.

Where buildings are acquired with the aid of specific grants they are capitalised and depreciated. The related grants are treated as deferred capital grants and released to income over the expected useful life of the buildings.

F Equipment

Equipment, including PCs costing less than £10,000 per individual item or group of related items is expensed in the year of acquisition. All other equipment is capitalised.

Capitalised equipment is stated at cost and depreciated over its expected useful life, as follows:

Computing Equipment	3 years
Other Equipment	5 years

Where equipment is acquired with the aid of specific grants it is capitalised and depreciated as above. The related grants are treated as deferred capital grant received in advance and released to income over the expected useful life of the equipment (the period of the grant in respect of specific research projects).

G Intangible Assets

Software and consultancy costs of implementation costing less than £10,000 per individual item or group of related items are expensed in the year of acquisition. All other software and related consultancy costs are capitalised. Intangible assets are stated at cost and amortised over their expected useful life of 5 years.

H Leased Assets

Costs in respect of operating leases are charged on a straight-line basis over the lease term. Leasing agreements, which transfer to the College substantially all the benefits and risks of ownership of an asset, are treated as if the asset had been purchased outright. The assets are included in fixed assets and the capital elements of the leasing commitments are shown as

obligations under finance leases. The lease rentals are treated as consisting of capital and interest elements.

The capital element is applied in order to reduce outstanding obligations and the interest element is charged to the income and expenditure account in proportion to the reducing capital element outstanding. Assets held under finance leases are depreciated over the shorter of the lease term or the useful economic lives of equivalent owned assets.

I Heritage Assets

The College Art Collection consists mainly of works of art acquired free of charge from former students and artists associated with the College. Most items in the collection had nil or little value at the date of acquisition as the artists were not well known. An internal valuation of the collection was carried out during 2009/10. This provided an estimate of the value of the collection, which has been used to bring the collection on to the balance sheet in line with FRS 30 (heritage assets). Heritage assets are not depreciated since their long economic life and high residual value mean that any depreciation would not be material.

J Investments

Endowment Asset Investments are included in the balance sheet at market value. Short term investments consist of cash balances, which are invested in interest bearing deposit accounts.

K Stocks

Stocks are stated at the lower of cost or net realisable value. Where necessary, provision is made for slow-moving and defective stocks.

L Maintenance of Premises

The College has a rolling maintenance plan, which is reviewed on an annual basis. The

cost of routine and corrective maintenance is charged to the income and expenditure account as incurred.

M Accounting for Charitable Donations

Unrestricted donations:

Charitable donations are recognised in the accounts when the charitable donation has been received or if, before receipt, there is sufficient evidence to provide the necessary certainty that the donation will be received and the value of the incoming resources can be measured with sufficient reliability.

Endowment funds:

Where charitable donations are restricted to a particular objective specified by the donor these are accounted for as an endowment. There are three main types:

- Restricted permanent endowment – the capital of the fund is to be maintained and the income thereon applied to the purposes specified by the donor;
- Unrestricted permanent endowments – the capital of the fund is to be maintained but the income can be applied to the general purposes of the College;
- Restricted expendable endowments – the capital of the fund can be spent for purposes specified by the donor.

Donations for fixed assets:

Donations received to be applied to the cost of a tangible fixed asset are shown on the balance sheet as a deferred capital grant. The deferred capital grant is released to the income and expenditure account over the estimated useful life of the asset in question.

N Taxation Status

The College is an exempt charity within the meaning of Schedule 3 of the Charities Act 2011 (formally schedule 2 of the Charities Act 1993), and is considered to pass the tests set out in Paragraph 1 Schedule 6 Finance Act 2010 and therefore it meets the definition of a charitable company for UK corporation tax purposes. Accordingly, the College is potentially exempt from taxation in respect of income or capital gains received within categories covered by section 287 CTA2009 and sections 471, and 478-488 CTA 2010 (formally s505 of ICTA 1988) or section 256 of the Taxation of Chargeable Gains Act 1992, to the extent that such income or gains are applied to exclusively charitable purposes. The College receives no similar exemption in respect of Value Added Tax. Irrecoverable VAT on inputs is included in the costs of such inputs. Any irrecoverable VAT allocated to tangible fixed assets is included in their cost.

O Pension Scheme

The Royal College of Art participates in the Superannuation Arrangements of the University of London ("SAUL"), which is a centralised defined benefit scheme and is contracted-out of the Second State Pension. SAUL is a "last man standing" scheme so that in the event of the insolvency of any of the participating employers in SAUL, the amount of any pension funding shortfall (which cannot otherwise be recovered) in respect of that employer will be spread across the remaining participant employers and reflected in the next actuarial valuation. A formal valuation of SAUL is carried out every three years by professionally qualified and independent actuaries using the Projected Unit method. Informal reviews of SAUL's position are carried out between formal valuations.

P Foreign Currencies

Transactions denominated in foreign currencies are recorded at the rate

of exchange ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are converted into sterling at year-end rates. The resulting exchange differences are dealt with in the determination of income and expenditure for the financial year.

Q Gifts in kind, including donated tangible fixed assets

Gifts in kind are included in 'other income' or 'deferred capital grants' as appropriate using a reasonable estimate of their gross value or the amount actually realised.

R Provisions, contingent liabilities and contingent assets

Provisions are recognised in the financial statements when the College has a present obligation (legal or constructive) as a result of a past event, it is probable that a transfer of economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is discounted to present value where the time value of money is material. The discount rate used reflects current market assessments of the time value of money and reflects any risks specific to the liability.

Contingent liabilities are disclosed by way of a note, when the definition of a provision is not met and includes three scenarios: possible rather than a present obligation; a possible rather than a probable outflow of economic benefits; an inability to measure the economic outflow.

Contingent assets are disclosed by way of a note, where there is a possible, rather than present, asset arising from a past event.

S Financial instruments

The College uses derivative financial instruments called interest rate caps to reduce exposure to interest rate movements.

T Intra-group transactions

Gains or losses on any intra-group transactions are eliminated in full. Amounts in relation to debts and claims between undertakings included in the consolidation are also eliminated. Balances between the College and its associates and joint ventures are not eliminated; unsettled normal trading transactions are included as current assets or liabilities. Any gains or losses are included in the carrying amount of assets of either entity the part relating to the College's share is eliminated.

Notes to the Accounts for the Year Ended 31 July 2013

1. Funding Council Grants	2012/13	2011/12
	£'000s	£'000s
Recurrent Grant	12,710	12,863
Specific Grants	301	452
Deferred Capital Grants Released in Year Buildings (note 18)	164	164
Total	13,175	13,479

2. Tuition Fees and Education Contracts	2012/13	2011/12
	£'000s	£'000s
Full Time Home/EU Fees	6,489	5,134
Overseas Fees	9,030	6,196
Part-time/EU Home Fees	311	228
Other Short Course Fees	238	137
Total	16,068	11,695

3. Research Grants and Contracts	2012/13	2011/12
	£'000s	£'000s
Research Councils Grants	616	575
UK Based Charities	480	447
UK Industries & Commerce	642	457
Other EU	137	68
Total	1,875	1,547

4. Other Operating Income	2012/13	2011/12
	£'000s	£'000s
Lettings	289	319
Catering Services	543	577
Other Services Rendered	1,295	1,775
Degree Shows Income	110	175
Other Deferred Grants Released (note 18)	168	168
Other Income	1,476	1,523
Total	3,881	4,537

5. Endowment and Investment Income

	2012/13	2011/12
	£'000s	£'000s
Income from expendable endowments	55	83
Income from permanent endowments	92	125
Other Interest Receivable	209	233
Total	356	441

6. Staff Costs

	2012/13	2011/12
	£'000s	£'000s
Contracted Staff	12,110	10,871
Projects and Other Staff	465	579
Sub Total	12,575	11,450
Social Security Costs	1,058	960
Pension Costs (Note 24)	1,377	1,158
Sub Total	15,010	12,568
Restructuring Costs*	26	13
Total	15,036	13,581

*Restructuring relates redundancy costs.

	2012/13	2011/12
	£'000s	£'000s
Emoluments of the Rector	200	200
Pension scheme contributions	42	41
Total Emoluments of the Rector	242	241

Remuneration of other Higher paid Staff, excluding employer's pension contributions	Number 2012/13	Number 2011/12
£100,001 - £110,000	1	0
£110,001 - £120,000	1	0

No member of the Council, receives remuneration in respect of his or her duties.

Average Full-time Equivalent Staff Numbers by Major Category:	Number 2012/13	Number 2011/12
Academic Courses and Services	160	148
Premises	20	22
Catering	0	7
Research	23	19
Administrative and Other	74	64
Total	277	260

Average FTE staff numbers in 2012/13 were calculated by taking an average of actual staff numbers at 31 July 2012 and 31 July 2013 except for Catering. RCA transferred its catering function to an external provider on 1 September 2012 and therefore had no contracted catering staff after this date.

7. Other Operating Expenses	2012/13	2011/12
	£'000s	£'000s
Academic Courses	2,945	2,880
Central Library & Learning Resources	131	133
Computing & Information Services	481	138
Technical Services	538	0
Administrative Services	1,390	944
Rents and Rates	885	662
Heat, Light, Water and Power	594	452
Minor Works	1,188	659
Other Premises Costs	1,943	1,732
Degree Shows	597	613
Grants to Students' Union	111	108
Scholarships, Prizes and Awards	733	772
Catering	753	376
Research Projects Expenditure	1,170	795
Research Students' fee waivers	87	0
Sponsored Projects/Exhibitions etc	1,076	571
HEFCE Student Bursaries	2,510	3,131
HEFCE Earmarked Expenditure	179	448
Other Educational Expenses	651	802
Other Expenses	124	82
Total	18,086	15,298

Other Operating Expenses include:

	2012/13	2011/12
	£'000s	£'000s
Auditors' Remuneration:		
External Auditors in respect of audit services *	44	42
External Auditors in respect of non-audit services	9	3
Internal Audit	25	30

* Includes £40,980 (2011-12 - £39,825) in respect of the College.

8. Interest and Other Finance Costs

	2012/13	2011/12
	£'000s	£'000s
Bank loans not wholly repayable within 5 years	160	218

**9. Analysis of Expenditure
by Activity**

	2012/13			2011/12	
	Staff Costs	Depreciation	Operating Expenditure	Total Expenditure	Total Expenditure
	£'000s	£'000s	£'000s	£'000s	£'000s
Academic Departments	6,985	421	2,945	10,351	10,038
Academic Services	1,936	0	2,226	4,162	2,009
Administration Services	2,643	0	1,550	4,193	3,069
General Educational	10	0	708	718	744
HEFCE Bursaries	0	0	2,510	2,510	3,131
Student Awards and Support	0	0	733	733	772
Other Services	796	0	775	1,571	1,847
Premises	1,265	1,794	4,610	7,669	6,336
Catering *	6	0	753	759	704
Research Grants and Contracts	1,279	0	1,257	2,536	1,885
Earmarked Expenditure	116	0	179	295	631
Total per Income and Expenditure Account	15,036	2,215	18,246	35,497	31,166

The Depreciation Charge has been funded by:

Deferred Capital Grants Released (Note 18)	332
Revaluation Reserve Released (Note 20)	1,342
General Income	541
Total	2,215

* Catering staff cost is related to RCA contracted catering staff before Catering operation was outsourced with effect from 1 September 2012.

10. Intangible fixed assets

(consolidated and College)	£'000s
Cost/Valuation at 1 August 2012	0
Additions	123
Amortisation	0
Net Book Value at 31 July 2013	123

The addition for the year relates to the purchase and implementation of a new finance software, which was brought into use on 1 August 2013.

The intangible asset is valued at cost.

The amortisation period is 5 years.

II. Tangible fixed assets

(consolidated and College)	Land & Buildings	Equipment	Assets in the course of construction	Heritage assets	Total
	£'000s	£'000s	£'000s	£'000s	£'000s
Cost/Valuation					
At 1 August 2012	88,893	1,692	293	11,008	101,886
Additions at Cost	1,227	693	1,789	0	3,709
Disposals at Cost	0	0	0	0	0
At 31 July 2013	90,120	2,385	2,082	11,008	105,595
Depreciation					
At 1 August 2012	17,158	1,396	0	0	18,554
Charge for year	2,005	210	0	0	2,215
Disposals at Cost	0	0	0	0	0
At 31 July 2013	19,163	1,606	0	0	20,769
Net Book Value					
At 31 July 2013	70,957	779	2,082	11,008	84,826
At 1 August 2012	71,735	296	293	11,008	83,332

The College's land and buildings include those held on long leases from the 1851 Commission, which were revalued in 1998, and Sculpture, Sackler and Dyson buildings at Battersea. The asset in the course of construction is the Woo building in Battersea. The building is expected to be completed in late 2014.

Heritage assets

The College has an art collection which consists mainly of works of art acquired free of charge from former students and artists associated with the College. Most items in the collection had nil or little value at the date of acquisition as the artists were not well known. Over time some items in the collection have appreciated in value. At 31 July 2013 there were over 1,100 items in the collection. An RCA internal valuation of the collection took place over the 2009-10 financial year. This estimate was used to capitalise the collection and recognise it on the balance sheet at 1 August 2010 in line with FRS 30 (Heritage assets). There were no significantly valuable pieces acquired during 2012/13.

12. Other fixed assets

Other Fixed Asset Investments

	£'000s
At 1 August 2012	551
Additions	20
Disposals	0
At 31 July 2013	571

Other fixed asset investments consists of unused income generated from the Development Fund, an unrestricted permanent endowment (see Note 19).

13. Endowment Asset Investments

	Consolidated		College	
	2012/13	2011/12	2012/13	2011/12
	£'000s	£'000s	£'000s	£'000s
Balance at 1 August	14,140	13,977	14,140	13,977
Additions	1,172	6,577	1,172	6,577
Disposals	(985)	(6,391)	(985)	(6,391)
Unrealised appreciation (Note 19)	1,354	124	1,354	124
Increase/(Decrease) in cash balance	(309)	(147)	(309)	(147)
Balance at 31 July	15,372	14,140	15,372	14,140
Represented by:				
Fixed Interest Stocks (listed)	3,234	3,470	3,234	3,470
Equities (listed)	11,418	9,451	11,418	9,451
Cash Balances	720	1,219	720	1,219
Total	15,372	14,140	15,372	14,140

14. Debtors

Consolidated & College

	2012/13	2011/12
	£'000s	£'000s
Amounts falling Due within One Year		
Debtors	702	566
Donors*	300	300
Prepayments	403	345
Accrued Income	107	60
	<hr/> 1,512	<hr/> 1,271
Amounts Falling Due After One Year		
Donors*	0	300
Total	<hr/> 1,512	<hr/> 1,571

* relate to significant pledges towards RCA's Battersea campus.

15. Investments

Consolidated & College

	2012/13	2011/12
	£'000s	£'000s
Deposits maturing:		
In one year or less	9,324	10,055
Between 1 and 2 years	0	1,000
Total	<hr/> 9,324	<hr/> 11,055

Deposits are held with banks operating in the London market and licensed by the Financial Services Authority.

16. Creditors: Amounts Falling Due Within One Year

Consolidated & College

	2012/13	2011/12
	£'000s	£'000s
Sundry Creditors	1,946	1,344
Social Security and Other Taxation Payable	426	397
Accrued Expenditure	260	326
Deferred Income - Projects and Sponsorships	1,605	509
Other Deferred income	699	1,668
Student fee deposits for following academic year	721	655
Bank loan	1,099	1,038
Total	<hr/> 6,756	<hr/> 5,937

**17. Creditors: Amounts Falling Due
After More Than One Year**

Consolidated & College

	2012/13	2011/12
	£'000s	£'000s
Bank Loan	7,719	8,818
Due within 1-2 years	1,168	1,099
due within 2-5 years	3,954	3,717
due after more than 5 years	2,597	4,002
Total	7,719	8,818

The College took out a loan from Royal Bank of Scotland in April 2010 of £12m to fund a deficit payment which was required when the College's own pension scheme merged with the SAUL scheme. The loan is being repaid in quarterly instalments over 10 years at a rate of 1.1% over LIBOR. There is no charge over the College's assets.

18. Deferred Capital Grants

Consolidated & College

	2012/13 HEFCE	2012/13 Non-HEFCE	2012/13 Total	2011/12 Total
	£'000s	£'000s	£'000s	£'000s
At 1 August				
Buildings	7,731	11,213	18,944	17,667
Equipment	0	0	0	0
Total	7,731	11,213	18,944	17,667
Grants Received during the year				
Buildings	216	53	269	1,609
Equipment	0	0	0	0
Total	216	53	269	1,609
Released to Income and Expenditure				
Buildings	(164)	(168)	(332)	(332)
Equipment	0	0	0	0
Total	(164)	(168)	(332)	(332)
At 31 July				
Buildings	7,783	11,098	18,881	18,944
Equipment	0	0	0	0
Total	7,783	11,098	18,881	18,944

Grants received for projects which have not yet been completed have been deferred and will be released to the income and expenditure account over the life of the projects concerned.

19. Consolidated Endowment Investments	Unrestricted Permanent	Restricted Permanent	Total Permanent	Restricted Expendable	2012/13 Total	2011/12 Total
	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s
Balances at 1 August 2012						
Capital	4,105	4,704	8,809	4,423	13,232	13,018
Accumulated Income	0	797	797	111	908	959
Sub Total	4,105	5,501	9,606	4,534	14,140	13,977
Additions	0	102	102	371	473	487
Transfers	0	(236)	(236)		(236)	0
Investment income	28	64	92	55	147	208
Expenditure	(28)	(171)	(199)	(307)	(506)	(656)
Increase in market value of investments	465	519	984	370	1,354	124
At 31 July 2013	4,570	5,779	10,349	5,023	15,372	14,140
	Closing Capital Value	Closing Accumulated Income	2012/13 Total			
Represented by:	£'000s	£'000s	£'000s			
Scholarships, Awards & Prize funds	7,492	638	8,130			
Development Fund	4,570	0	4,570			
Helen Hamlyn Endowment	345	0	345			
Helen Hamlyn Chair of Design	2,327	0	2,327			
Total	14,734	638	15,372			

Scholarships, Awards & Prize funds consists of numerous restricted permanent and expendable endowments to fund prizes or awards to students.

Development Fund

Up until 2010 this was a separate charity which was consolidated into the College's accounts, as well as being an unrestricted permanent endowment. In June 2010, the Charity was formally dissolved and is now an unrestricted permanent endowment.

Helen Hamlyn Endowment

This restricted expendable endowment funds the activities of the Helen Hamlyn Research centre.

Helen Hamlyn Chair of Design

This restricted expendable endowment funds the Helen Hamlyn Chair of Design.

20. Revaluation Reserve

	Land & Buildings	Heritage Assets *	Total
	£'000s	£'000s	£'000s
Valuation At 1 August 2012	42,019	11,008	53,027
Contributions to Depreciation			
At 1 August 2012	(14,775)	0	(14,775)
Released in Year	(1,342)	0	(1,342)
At 31 July 2013	(16,117)	0	(16,117)
Net Revaluation Amount			
At 31 July 2013	40,677	11,008	51,685
At 1 August 2012	42,019	11,008	53,027

* Heritage assets refers to the College collection. See Note 10.

21. Movement on Reserves

	2012/13	2011/12
	£'000s	£'000s
Surplus/(Deficit) after Depreciation of Assets at Valuation	(142)	533
Released from Revaluation Reserve	1,342	1,342
Historical cost surplus	1,200	1,875
Balance b/f at 1 August	9,854	7,531
Historic Cost Surplus for the year	1,200	1,875
Transfer to specific endowments	359	448
Income and Expenditure account at 31 July	11,413	9,854

22. Lease Obligations

Consolidated & College

	2012/13	2011/12
	£'000s	£'000s
Operating lease commitments in respect of buildings and equipment on leases expiring:		
Between One and Five Years	312	4
Over Five Years	683	554
Total	995	558

23. Capital Commitments

During 2012-13 the College signed a contract for £10m (including VAT) for the construction of the Woo Building at the College's campus in Battersea. The building is expected to be completed in late 2014 and occupied in 2015.

During 2012/13 contracts were also signed for the replacement of the main lifts in the Darwin Building (£0.379m) and for the extension of the Sackler Building (£0.371m).

24. Pension Scheme

The Royal College of Art participates in the Superannuation Arrangements of the University of London (SAUL) which is a defined benefit scheme with assets held in separate Trustee-administered funds. The College has adopted FRS17 for accounting for pension costs. It is not possible to identify the College's share of the underlying assets and liabilities of SAUL. Therefore contributions are accounted for as if SAUL were a defined contribution scheme and pension costs are based on the amounts actually paid (i.e. cash amounts) in accordance with paragraphs 8 - 12 of FRS17.

SAUL is subject to triennial valuations by professionally qualified independent actuaries. The last available valuation was carried out as at 31 March 2011 using the projected unit credit method in which the actuarial liability makes allowance for projected earnings. The main assumptions used to assess the technical provisions were:

31 March 2011

Discount rate	
pre-retirement	6.80% p.a.
post-retirement	4.70% p.a.
General* Salary Increases	3.75% p.a. until 31 March 2014, 4.50% p.a. thereafter
Retail Prices Index inflation (RPI)	3.5% p.a.
Consumer Price Index inflation (CPI)	2.8% p.a.
Pension Increases in payment (excess over GMP)	2.8% p.a.
Mortality - base table	SAPS Normal (year of birth) tables with an age rating of +0.5 years for males and -0.4 years for females.
Mortality - future improvements	Future improvements in line with CMI 2010 projections with a long term trend rate of 1.25% p.a.

*an additional allowance is made for promotional Salary increases

The actuarial valuation applies to SAUL as a whole and does not identify surpluses or deficits applicable to individual employers. As a whole, the market value of SAUL's assets was £1,506 million representing 95% of the liability for benefits after allowing for expected future increases in salaries.

Based on the strength of the Employer covenant and the Trustee's long-term investment strategy, the Trustee and the Employers agreed to maintain Employer and Member contributions at 13% of Salaries and 6% of Salaries respectively following the valuation. The above rates will be reviewed when the results of the next formal valuation (as at 31 March 2014) are known.

A comparison of SAUL's assets and liabilities calculated using assumptions consistent with FRS 17 revealed SAUL to be in deficit at the last formal valuation date (31 March 2011). As part of this valuation, the Trustee and Employer have agreed that no additional contributions will be required to eliminate the current shortfall.

The more material changes (the introduction of a Career Average Revalued Earnings, or "CARE", benefit structure) to SAUL's benefit structure will apply from 1 July 2012. As a consequence, the cost of benefit accrual is expected to fall as existing final salary members as replaced by new members joining the CARE structure. This will allow an increasing proportion of the expected asset return to be used to eliminate the funding shortfall. Based on conditions as at 31 March 2011, the shortfall is expected to be eliminated by 31 March 2021, which is 10 years from the valuation date.

25. Reconciliation of Operating Activities

Consolidated & College

	2012/13	2011/12
	£'000s	£'000s
Surplus/(Deficit) Before Tax and exceptional items	(142)	533
Depreciation (Note 11)	2,215	2,069
Deferred Capital Grants Released to income (Note 18)	(332)	(332)
Investment and Endowment returns (Note 5)	(356)	(441)
Decrease/(Increase) in Stocks	14	17
Decrease/(Increase) in Debtors	59	1,158
(Decrease)/Increase in Creditors	758	(789)
Interest payable	160	218
Transfer of endowments	(471)	0
Net Cash Inflow/(Outflow) from Operating Activities	1,905	2,433

	At 1-Aug-12	Cashflows	At 31-Jul-13
	£'000s	£'000s	£'000s
Change in net funds			
Cash at Bank and in Hand	5	41	46
Endowment cash (Note 12)	1,219	(499)	720
Total	1,224	(458)	766

26. Returns on Investments and Servicing of Finance

	2012/13	2011/12
	£'000s	£'000s
Income from endowment Investments (Note 19)	147	208
Other Interest Received (Note 5)	209	233
Income from Unrestricted Endowment Fund	20	72
Interest paid	(160)	(218)
Net Cash Inflow from Returns on Investments and Servicing of Finance	216	295

27. Capital Expenditure and Financial Investment

	2012/13	2011/12
	£'000s	£'000s
Tangible Assets Acquired	(3,709)	(7,873)
Intangible Assets Acquired	(123)	0
Endowment Assets Acquired	(1,172)	(6,577)
Receipts from Sale of Endowment Assets	985	6,391
Deferred Capital Grants Received (Note 18)	269	1,609
Endowments Additions	473	487
Net Cash (Outflow)/Inflow from Capital Expenditure and Financial Investment	(3,277)	(5,963)

28. Analysis of Changes in Net Funds

	At 1-Aug-12	Cashflows	Non cash changes	At 31-Jul-13
	£'000s	£'000s	£'000s	£'000s
Endowment Asset Investments (Note 13)	1,219	(499)	0	720
Cash at Bank and in Hand	5	41	0	46
Total	1,224	(458)	0	766
Current Asset Investments	11,055	(1,731)	0	9,324
Changes in Net Funds	12,279	(2,189)	0	10,090
Financing				
Loan: Due within one year	(1,038)	(61)	0	(1,099)
Loan: Due after more than one year	(8,818)	1,099	0	(7,719)
Total	2,423	(1,151)	0	1,272

29. Financial Instruments

Unquoted Investments

At 31 July 2013, the College had unquoted equity investments of £674,000 which were held at cost. These consist of investments in nine start up companies supported by the InnovationRCA Incubator.

The InnovationRCA incubator aims to create new design entrepreneurs and business innovators. The objective is to create new firms that can attract further funding, create intellectual assets that can be licensed, or sold to other firms.

These investments have been recognised as equity investments and they have subsequently been impaired to nil so there is no carrying value in the balance sheet.

Hedging

The College has entered into a hedging arrangement, an interest rate cap, which caps the interest rate payable on its long term loan at 5% to reduce exposure to interest rate increases (see Note 16 and 17 for details of the loan).

30. Related Party Transactions

Due to the nature of the College's operations and the make-up of its Council and staff it is inevitable that transactions will take place with external bodies, trusts and organisations with which Council members and/or staff may be associated. The College maintains a Register of Interests in which all such interests are declared, and all transactions are conducted at arm's length and in accordance with the College's financial regulations. Payments of £430.30 (2011/12 £15.80) in respect of incidental expenses were made to Council members during the year.

During the year, the College awarded design work to Research Studios, a firm owned by Professor Neville Brody, who is also Dean of the School of Communications at the College. Overall, the amount payable to Research Studios for the work is £61,740 (2011/12 £52,400).

31. Access Funds

	2012/13	2011/12
	£'000s	£'000s
Access Funds have not been included in the Income and Expenditure Account:		
Balance B/F as at 1 August	7	5
Received from HEFCE	14	27
Payments made to Students	(16)	(25)
Balance C/F as at 31 July	5	7

Grants totalling £234,451 were received from HEFCE during the year for work undertaken by the National Film & Television School. These grants were passed on to the NTFS, and have not been included in the College's Accounts. The College receives an administration charge for this which is shown in other income.

32. Post Balance Sheet Event

The College took out a further loan from Royal Bank of Scotland of £4m and received this on 1 August. This is to help fund the Woo building. The loan is being repaid in 28 quarterly instalments at a fixed rate of 3.7%.

Royal College of Art

Financial Statements
For the Year Ended 31 July 13

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